
MEMORANDUM

DATE: September 18, 2007

TO: Members of the California State Assembly

FROM: Juan Arambula, Chair
Assembly Committee on Jobs, Economic Development, and the Economy

RE: Small Business Issues

During the 2007 Legislative year, Members will be meeting with small business associations, advocacy groups, and local small business leaders. The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) has prepared this briefing memorandum to assist Members in their discussions.

This briefing memorandum is divided into four sections. The first section provides background on California small businesses. The second section includes bills enacted last year and currently under review. The third section includes information on related oversight hearings held during the 2005-2006 and the 2007-2008 Sessions. The final, and fourth section, provides an update on proposed reforms to the California Enterprise Zone Program related to small businesses.

I. Fast Facts on Small Business in California

This section provides basic information on small businesses and microenterprises. To the extent possible, the most recently available data is used.

Small Business

Small businesses are an integral part of the California economy, comprising more than 90 percent of all businesses in the state. More than 50 percent of all employees in California work for small businesses. Below are additional facts on small businesses.

- There were an estimated 3.3 million small businesses in California in 2004.
- Approximately 117,000 new small businesses were formed in 2004 and 143,000 small businesses in California closed their doors. Approximately 50 percent of all small businesses fail within seven years of opening.
- California small businesses contributed \$137.5 billion to the state's economy in 2003.
- Small and medium sized businesses accounted for 95 percent of all California businesses that exported goods in 2003; comprising 53,700 out of a total of 56,758 business enterprises.

- Small and medium-sized firms generated more than one-third (42.2 percent) of California's total exports of merchandise in 2003. This was well above the 27.2 percent export share for small and medium size enterprises nationally.

Women-Owned Businesses

While the number of women on corporate boards and in upper management of Fortune 500 companies significantly lags behind women's overall representation in the workforce, women-owned businesses are an increasingly important segment of the business community. Below are some additional facts on women-owned businesses (50 percent or more owned by women) from the Center for Women's Business Research (Center).

- As of 2004, there are an estimated 1,249,343 privately-held women-owned firms in California, accounting for 48.6 percent of all privately-held firms in the state.
- The 1,249,343 privately-held women-owned firms in California generated more than \$406 billion in sales and employed 2,818,949 people in 2004.
- Between 1997 and 2004, the Center estimates that the number of privately-held women-owned firms in California increased by 7.1 percent, employment grew by 31.8 percent, and sales increased by 47.2 percent.
- Among the 50 states and Washington, D.C., California ranked first in the number of privately-held women-owned firms in 2004, first in employment, and first in sales.
- California ranked 47th in the growth in the number of privately-held women-owned firms between 1997 and 2004, 19th in employment growth, and 24th in sales growth among the states and Washington, D.C.

Minority-Owned Businesses

In 2000, the Milken Institute's Center on Emerging Domestic Markets, issued a report, in collaboration with the United States Department of Commerce, which found minority-owned firms are surpassing the growth of all U.S. businesses, growing at a rate of 17 percent per year, six times the growth rate of all other firms. Minority firms' sales are growing 34 percent per year—more than twice the rate of all other firms. California has also seen an increase in minority-owned firms, including:

- In 2002, Latino-owned firms totaled 427,805—an increase of 27 percent from 1997.
- In 2002, Black-owned firms totaled 113,003—an increase of 43 percent from 1997.
- In 2002, Asian-owned firms totaled 372,221—an increase of 19 percent from 1997.
- In 2002, American Indian and Alaska Native-owned firms totaled 40,541—an increase of 52 percent from 1997.

Microenterprise

A small subset of "small business," are microenterprises. A business is generally considered a microenterprise if it has five or fewer employees and was started with \$35,000 or less.

- Estimates place the number of microenterprises in the U.S. at over 20 million businesses.
- In 2003, microenterprises comprised over 88% of the number of businesses in California, equaling 2,829,108 businesses.

II. Small Business Legislative Actions

This section identifies legislative actions related to small businesses that were signed into law during the 2005-06 Session. The section also includes a list of pending legislation in 2007.

Please note that small businesses may also be heavily impacted by changes in laws in many areas, including: bankruptcy, environmental standards, and land use. This document will be periodically updated to reflect the progress of this legislation.

Bills signed into law

- **AB 348 (Arambula and Bass) – Self Certification of Small Business Eligibility:** This bill authorizes a business to self certify – under penalty of perjury – that the business is an eligible small business to sell goods and provide services to state and local governments. Currently, a business must be certified by each government agency with which it wishes to do business even though the requirements for such certification are often duplicative. The multiple applications and lengthy review processes often act as a deterrent for small businesses from engaging in sales to state and local governments. **Status:** Chapter 185, Statutes of 2005
- **AB 424 (Calderon) – Business Identity Theft:** This bill creates the crime of identity theft perpetrated against a business and gives businesses that are victims of identity theft the same rights as individuals. Allows businesses that are victims of identity theft to file a police report and to obtain fraudulent account information from a credit grantor who has provided credit to an identity thief. **Status:** Chapter 10, Statutes of 2006
- **AB 1550 (Arambula) – Economic Incentive Areas:** This bill provides meaningful improvements to the management, oversight, and transparency of the California Enterprise Zone Program and other Geographically-Targeted Economic Development Area programs. **Status:** Chapter 718, Statutes of 2006
- **AB 2098 (Liu) – State-government: electronic payment system:** This bill requires the Department of Technology Services to design and implement a comprehensive electronic payment system that will allow all state agencies to receive and make payments through electronic funds transfers, credit cards, debit cards, and automated clearinghouse debits and credits. **Status:** Chapter 818, Statutes of 2006

- **AB 2330 (Arambula) - Small Business Costs Study:** This bill requires the Office of the Small Business Advocate to commission a study of the costs of state regulations on small businesses that is parallel to the study on the impact of regulatory costs on small firms conducted by the federal Small Business Administration. The Office is required to make recommendations on how to reduce the cost of existing and future regulations on businesses while achieving the same policy and regulatory objectives. Convenes a small business advisory committee to provide advice based on the study and recommendations. **Status:** Chapter 232, Statutes of 2006
- **AB 3058 (Assembly Jobs Committee) – Small Business Disaster Preparedness:** This bill reduces economic losses attributable to disasters, by providing technical assistance to small businesses on disaster preparedness. Specifically, the bill (1) enhances the duties of the Office of the Small Business Advocate to include advocacy on disaster preparedness and recovery, including the provision of technical assistance; (2) requires the SBA, in cooperation with the Office of Emergency Services, to develop a handbook for small businesses on emergency preparedness, responding in an emergency, and recovery strategies; and, (3) requires the SBA, with the assistance of OES, to hold at least three meetings, in different locations in California, to share best practices on disaster preparedness for small businesses. **Status:** Chapter 233, Statutes of 2006
- **SB 115 (Florez) – California Disabled Veteran Business Enterprise Program:** This bill sets up uniform processes for all state contracting that would provide Disabled Veteran Business Enterprise participation incentives to bidders. **Status:** Chapter 451, Statutes of 2005
- **SB 1436 (Figueroa) – Small Business Regulatory Standards:** This bill requires the Department of Technology Services to create a link to state agency web sites at the State of California Internet portal specifically for the use of small businesses in accessing information regarding startup requirements and regulatory compliance. Requires each state agency that significantly regulates or impacts small business, to designate at least one individual to serve as a small business liaison for the agency. Requires each agency to ensure the state's procurement and contracting processes are administered in order to meet or exceed the 25 percent small business participation goal. **Status:** Chapter 234, Statutes of 2006

Pending Bills

- **AB 608 (De La Torre): State Contracting and the Small Business Preference:** This bill increases the procurement contract bid preference for small businesses and microbusiness from 5% to 10%. **Status:** Approved by the Legislature and sent to the Governor for his signature
- **AB 610 (Price): Leverage of the Small Business Expansion Fund:** This bill enhances the Small Business Loan Guarantee Program's ability to leverage existing program dollars resulting in the ability to serve more small businesses financial needs per year. **Status:** Approved by the Legislature and sent to the Governor for his signature

- **AB 655 (Swanson): Contract Limitations on Small Business Preference:** This bill requires state departments that award contracts pursuant to the Bond Acts of 2006 to consider and grant bid preferences to contractors on the basis of their status as a small business, the type of community they are located in, and the number of employees they hire from their community. **Status:** Held in the Assembly Committee on Appropriations
- **AB 761 (Coto): Small Business Preferences:** This bill requires each state agency awarding contracts that are financed with proceeds from the infrastructure bonds approved by voters in November, 2006, to establish a 25% small business participation goal for state infrastructure construction contracts, and to provide specified assistance to small businesses bidding on state infrastructure bond-related contracts. **Status:** Approved by the Legislature and sent to the Governor for his signature
- **AB 816 (Carter): Microenterprise Development Organizations:** This bill establishes a \$5 million program at the Business, Transportation and Housing Agency for the purpose of making capacity building grants to microenterprise development organizations. **Status:** Held in the Assembly Committee on Appropriations
- **AB 1104 (Aghazarian): Disaster Assistance and the Small Business Expansion Fund:** This bill makes modifications to the Small Business Loan Guarantee Program relating to small business disaster guarantees and eligible investments of SBLGP funds. **Status:** Approved by the Legislature and sent to the Governor for his signature
- **AB 1107 (Arambula): Goods Movement and Small Business and Microenterprise Development:** This bill requires the Business, Transportation and Housing, Agency, the California Environmental Protection Agency, and the California Department of Food and Agriculture to establish an advisory committee to assist in the assessment of goods movement needs of small business and microenterprise in California. **Status:** Senate Floor
- **AB 1189 (Assembly Committee on Veterans Affairs) California Disabled Veteran Business Enterprise Program:** This bill requires that awarding departments obtain copies of a contractor's Disabled Veteran Business Enterprise certification letter and reference number, issued by the Department of General Services, and check the contractor's standing as a certified DVBE on the Department of General Services website, prior to awarding a contract based on the contractor's DVBE status. **Status:** Senate Floor
- **AB 1272 (Arambula): Small Cities Technical Assistance Program** This bill establishes a local assistance program, within the California Infrastructure and Economic Development Bank, to assist small and rural communities obtain bond financing for infrastructure projects. **Status:** Held in the Assembly Committee on Appropriations
- **AB 1400 (Richardson): State Contracting and the Small Business Preference:** This bill requires the Regents of the University of California and the Trustees of the California State University to each submit a report to the Department of General Services on the number of consulting, disabled veterans business enterprise, and small business contracts each organization awarded for each fiscal year, on a campus by campus basis, and according to a

specified format. **Status:** The contents of the bill was deleted in the Senate and the bill was used for a different purpose.

- **AB 1431 (Arambula): Investment Guarantee Program:** This bill establishes the Early Stage Investment Guarantee Program , administered through the Small Business Loan Guarantee Program, for the purpose of assisting small businesses in attracting investors during the early years of their companies growth, as specified. **Status:** Held in the Assembly Committee on Appropriations
- **AB 1491 (Arambula): Small and Emerging Contractors Technical Assistance Program:** This bill establishes the Small and Emerging Contractors Technical Assistance Program, administered by the California Department of Transportation to provide small contractors with technical assistance and training to improve their knowledge and skills necessary to secure surety bonds required for public works contracting and assist them in participating in state awarded construction contracts. **Status:** Held under submission in the Senate Committee on Appropriations
- **AB 1527 (Arambula) – California Clean Tech Advantage Act:** This bill establishes the California Clean Tech Advantage Act of 2007 to provide enhanced research and development income tax credits to small businesses undertaking research related to clean technologies. One provision increases the value of the applied research and development credit from 15 to 20%. The other provision authorizes a 10% salable credit to help raise working capital. Both credits expire once the Air Resources Board implements its broader GHG emission reduction program in 2012. **Status:** Held in Assembly Committee on Revenue and Taxation
- **AB 1606 (Arambula): California Economic Development Strategic Plan:** This bill requires the development of a strategy to increase private investment in California's historically under served communities, also known as emerging domestic markets. The bill also centralizes the state's existing economic development programs with the Economic Strategy Panel, in order to improve their coordination and impact on California communities. **Status:** Approved by the Legislature and sent to the Governor for his signature
- **AB 1620 (Arambula): California Clean Technology Services Unit:** This bill establishes the California Clean Technology Services Unit within the Business, Transportation, and Housing Agency to promote the development of environmentally-friendly technologies, help businesses bring clean technology to California, and coordinate efforts between state agencies that encourage clean technology development that meets the state's environmental goals and standards. The provisions of this bill sunset on January 1, 2013. **Status:** Held in the Senate Committee on Environmental Safety
- **AB 1651 (Arambula) – Clean Tech Credit on New Equipment:** Authorizes a 10% income tax credit for the purchase of cleantech equipment by small businesses. The credit expires once the Air Resources Board implements its broader GHG emission reduction program in 2012. **Status:** Held in Assembly Committee on Revenue and Taxation
- **AB 1695 (Bass): Small Business Surety Bond Guarantees (Urgency):** This bill capitalizes and activates the Surety Bond Guarantee Account, administered by the Small Business Loan Guarantee Program, for the purpose of providing surety bond guarantees for small businesses

that provide services on state and federally funded transportation projects. **Status:** Held in the Assembly Committee on Appropriations

*As other bills are identified as relevant to small business, the Committee will update the aforementioned listing.

III. Informational and Oversight Hearings

During the 2005/06 and the 2007/08 legislative sessions, JEDE held several informational hearings on issues of concern to small business. Two of those hearings are described below. The final section of the memorandum includes an expanded description of JEDE's review of the California Enterprise Zone Program.

The Business Climate for Growth and Development of the California Economy

On Wednesday, February 9, 2005, JEDE convened an informational hearing to examine California's current business climate and the competitiveness of business activities and investment in California.

The Chairman commenced the hearing by stating that the JEDE Committee meetings and activities should be used to foster better collaboration between business and government, including both Houses of the Legislature, both political parties, and the Executive branch. Collectively, this collaboration can help accelerate California's economic recovery. It was mentioned that through the hearing, it is hoped that further legislative reform will occur to help sustain the current economic recovery underway.

The purpose of the hearing was to assess California's competitive and regulatory issues as seen from a business perspective. Hearing participants, representing various business interests, examined California's competitiveness in retaining and attracting jobs, challenges to developing a skilled workforce, and future directions and choices California can make to expand its economy.

A number of suggestions were made on how California could improve the overall business climate. Among the suggestions that influenced future legislation were: support the existing network of economic developers by encouraging the contribution of more local resources; help business retention efforts by promoting customer service training; and, identify state regulations that could be more efficient and less cumbersome to small businesses while achieving the same policy objectives.

The Chair concluded the hearing by stating, "Collectively, we should be able to bring together the resources necessary to fast-track our economic recovery throughout the state by expanding business, developing new technologies and creating jobs – making California a safe and healthy place for everyone to live and work."

Overview of Small Business and Microenterprise Development, April 5, 2005

On Tuesday, April 5, 2005, JEDE convened a special order of business to examine small businesses and microenterprises.

Testimony during the special order demonstrated the importance of microenterprises and small businesses to the overall California economy. Hearing participants, representing both microenterprises and small businesses, discussed training programs that help provide a skilled California workforce, regulations imposed on smaller businesses, and projected needs of smaller businesses in order to remain competitive.

Information presented during the special order also shed light on the important link between larger companies and smaller businesses, which large companies contract with for specialized work.

Participants noted that microenterprise businesses alone directly account for 19.2 percent of California's employment, are 78 percent women-owned, and coupled with small businesses, provide an invaluable catalyst for the California economy.

At the conclusion of the hearing members of JEDE were committed to continue to find ways to address the needs of small business through the legislation they reviewed.

Microenterprise: The Engine of Regional Economies, July 26, 2006

On Tuesday, July 26, 2006, JEDE convened an informational hearing on the role of microenterprise in regional economies. At the conclusion of the hearing, it was clear that there is a need for a more comprehensive, microentrepreneur-centered, community reinvestment model to better address the needs of businesses, underserved communities, and public and private investors.

Existing policies and programs are fragmented and appear to focus either on broad community development objectives, or individual worker development objectives. These fragmented policies and programs have resulted in local community developers, such as microenterprise development organizations, having to package increasingly complex deals that blend multiple funding sources. Each additional source of funding adds new layers of regulation, reporting, and monitoring without necessarily adding value. A more comprehensive approach to community development would also reduce unnecessary administrative burdens while increasing program dollars for project delivery.

A few of the recommendations from the hearing include:

- Designating microenterprise development as a core element to the California Economic Development Plan and including a comprehensive review of private investment tools for community revitalization.
- Investing in capacity building of organizations and systems supporting entrepreneurship development. [Addressed in AB 816 (Carter), 2007/08 Session]
- Reviewing key state economic development programs to identify impediments to MDO participation.
- Calling for the inclusion of entrepreneurship training in California K-12 schools and community colleges systems.

- Encouraging more private investment in microenterprise, including an increase in the percentage of CDFI microenterprise activities in California. [Addresses in an Arambula sponsored investor working group this Fall in conjunction with the Latino Caucus and the California Hispanic Chambers of Commerce]
- Advocating on the 2007 federal Farm Bill for rural development programs that assist rural microenterprise.
- Reviewing the Goods Movement Plan and recommend changes to support the efficient transport of microenterprise-produced products. [Addressed in AB 1107 (Arambula), 2007/06 Session]
- Developing a resource coordination function within state government to assist local jurisdictions, nonprofits, foundations, and financial institutions to identify resources and partner with the state for entrepreneur development. [Addressed in AB 1606 (Arambula), 2007/06 Session]
- Convening a microenterprise and community development roundtable to discuss possible new legislation for the 2007/08 Legislative Session.

California's Economic Development Programs: Meeting the Challenges of Today's Economy, March 2007

On Tuesday, March 28, 2007, JEDE and the Budget Subcommittee 4 on State Administration held a joint hearing to examine the state's workforce investment and economic development programs. This hearing followed up on the findings and recommendations from the international trade and microenterprise hearings JEDE has held in the previous session further focusing on the need for a more comprehensive and streamlined, approach to economic and workforce development.

Recommendations from the hearing include, but are not limited to, the following actions:

- Develop a state policy and strategy for attracting private investment in California's EDMs which is integrated into the State ED Plan and the pending state international trade policy and strategy. [Addressed in AB 1606 (Arambula), 2007/08 Session]
- Coordinate state efforts to increase small business participation in state construction and procurement contracts with state workforce training and economic development programs. [Addressed in AB 761 (Coto) and AB 1491 (Arambula), 2007/08 Session]
- Streamline state regulatory, licensing, and permitting requirements for small business and microenterprise start-ups through on-line, one-stop application and assistance programs.
- Begin a dialogue with the private sector on how to encourage the development of products to meet the state's greenhouse gas emission reduction targets. [Addresses in an Arambula sponsored investor working group this Fall in conjunction with the Latino Caucus and the California Hispanic Chambers of Commerce]

- Develop an integrated strategy on the delivery of state and local workforce and economic development programs to provide skilled workers for emerging industries such as cleantech, and to meet the workforce demands of emerging economic trends such as the manufacturing value chain. [Addressed in AB 1606 (Arambula), 2007/08 Session]

IV. California Enterprise Zone Program and Small Business Participation

During the 2005/06 session, JEDE and the Assembly Committee on Revenue and Taxation held a series of hearings reviewing California's Enterprise Zone Program. The hearings were meant to shed light on a program that had not been comprehensively reviewed since its inception. From the hearings, JEDE produced a list of recommended reforms for the Enterprise Zone program, including a number of recommendations that would increase the efficacy of the program for small businesses. Those recommendations include:

- Authorizing small businesses to transfer the value of the hiring credit against certain other state taxes owed, i.e. sales tax. Many small businesses have little use for an income tax credit, but could use credits against other state tax liabilities.
- Requiring enterprise zone managers develop a directory of businesses located in each enterprise zone. Each zone marketing plan should include how existing local, state, and federal resources will be used to retain and grow these businesses, as well as attract new businesses. Too often, zone activities are almost exclusively focused on a few large companies relocating into the zone rather than serving the full range of businesses within the zone. [Addressed in AB 1550 (Arambula and Karnette), 2005/06 Session]
- Establishing a three-year pilot project authorizing employers to self-certify hiring credits. The Franchise Tax Board will prepare a report on the effectiveness of the enterprise zone program. This will eliminate some of the bureaucracy surrounding the use of the hiring credits and make them more accessible to small businesses.
- Requiring enterprise zones to have "pre-certification" programs for eligible employees. This does not preclude employers from hiring non-"pre-certified" employees and still receive credits; however, identifying prospective employees who are eligible for hiring credit vouchers would make it be easier for small businesses to utilize vouchers.

Conclusion

For more information on small business issues, please contact the Assembly Committee on Jobs, Economic Development, and the Economy. The Committee Office is located in the Legislative Office Building at 1020 N Street, Room 369.

Other reports, fact sheets, and information may be found at the Committee's website, which is located under the name, Assembly Committee on Jobs, Economic Development, and the Economy, at: <http://www.assembly.ca.gov/acs/acsframeset8text.asp> .